Annual Securities Report

"Yukashoken Hokokusho"

(Excerpt)

For the fiscal years ended March 31, 2018 and 2017

FIDEA Holdings Co. Ltd.

and Subsidiaries

Message from the President and CEO

Dear Shareholders and Investors,

I would like to express my deepest gratitude for your continued support for the FIDEA Group, including the Shonai Bank, Ltd., and the Hokuto Bank, Ltd.

In fiscal 2017 the FIDEA Group launched its third Medium-term Management Plan, “Consulting and Innovation.”

The environment surrounding regional financial institutions is growing more and more difficult because of the declining birthrate and associated declining and aging population, the prolonged negative interest rate environment, and changes in competitive environment due to the entry of other industries into the field. Under these circumstances, we will be committed more closely than ever to our customers and aim at a transformation to a business model in which we identify both the apparent and potential needs of customers through dialogue with them and exercise consulting capabilities in a timely manner, thereby supporting the growth of regional economies.

Specifically, in order to satisfy needs related to business succession and M&A, which have been increasing among our local firms, we will formulate a support team comprising personnel with professional expertise and skills across our two banks and proactively offer consultation. Moreover, in expanded cooperation with other local banks and business partners, we will provide business information in a broader range of areas and endeavor to enhance our lineup of solutions to various issues of our clients, including marriage-arrangement support and staffing services.

As a leader in regional economies, we will also continue to proactively support regional revitalization projects. In fiscal 2017, we were actively engaged in initiatives to help overcome structural problems in areas with a declining population and support the sustainable development of regional areas, such as: inviting the Thai national badminton team to Misato Town, Akita Prefecture as the site for their training camp for the Tokyo Olympics; supporting asset securitization in line with the large-scale redevelopment of retail facilities, which are the core customer attraction in the center of Tsuruoka City, Yamagata Prefecture; accumulating achievements in supporting agribusinesses using the Shonai Bank’s agribusiness support fund; and supporting incomers and their start-up businesses in cooperation with local governments.

In April 2018, we restructured the headquarter functions of the holding company and the two banks. To enable both the Shonai Bank and the Hokuto Bank to fulfill their responsibilities in the revitalization of their respective business areas and devote efforts in solving issues of their customers, we have integrated planning-related functions, including those of the holding company, and are now forwarding the integration of administration centers and other back-office operations. The holding company and the two banks are making a united effort to exert further synergies, and working on the enhancement of consulting business systems in a speedy manner.

Under the slogan “Reaching out to the community and stepping into the next generation - Trust FIDEA,” FIDEA Group will strive to become the best advisor for our customers, as a readily accessible provider of information and expertise in solving our customers’ needs and issues.

I appreciate your continued support and guidance.

July 2018
Yuichi Tao
President and CEO
FIDEA Holdings Co. Ltd.

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Assets:			
Cash and due from banks (Notes 10, 19 and 23)	¥ 156,177	¥ 77,180	$ 1,469,624
Monetary claims bought (Note 23)	4,121	3,841	38,778
Trading account securities (Notes 4 and 23)	303	704	2,851
Money held in trust (Notes 5 and 23)	14,002	9,606	131,758
Securities (Notes 4, 5, 10, 13 and 23)	744,685	937,382	7,007,480
Loans and bills discounted (Notes 6, 22 and 23)	1,738,367	1,759,326	16,358,022
Foreign exchange assets (Note 23)	2,145	2,055	20,184
Tangible fixed assets (Note 7):			
Buildings	15,753	11,122	148,235
Land	10,741	11,059	101,072
Lease assets	187	224	1,759
Construction in progress	41	3,839	385
Other tangible fixed assets	2,385	2,590	22,442
Intangible fixed assets:			
Software	1,856	2,598	17,464
Other intangible fixed assets	136	137	1,279
Defined benefit asset (Note 12)	348	618	3,274
Deferred tax assets (Note 20)	1,720	1,734	16,185
Customers' liabilities for acceptances and guarantees (Note 22)	22,015	21,801	207,161
Other assets (Note 10)	61,391	17,344	577,688
Allowance for loan losses (Notes 6 and 23)	(14,410)	(16,315)	(135,598)
Total assets	¥ 2,761,970	¥ 2,846,854	$ 25,990,119

(Continued)

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Liabilities:			
Deposits (Note 23)	¥ 2,429,106	¥ 2,392,320	$ 22,857,871
Negotiable certificates of deposit (Note 23)	99,843	141,595	939,521
Payables under securities lending transactions (Notes 10 and 23)	60,778	129,789	571,920
Borrowed money (Notes 9, 10 and 23)	15,100	16,400	142,090
Foreign exchange liabilities (Note 23)	52	36	489
Bonds payable (Notes 11 and 23)	-	5,000	-
Defined benefit liability (Note 12)	2,266	2,690	21,323
Provision for reimbursement of deposits	762	647	7,170
Provision for contingent loss	419	344	3,942
Other provisions	17	31	159
Deferred tax liabilities (Notes 5 and 20)	3,888	3,325	36,586
Deferred tax liabilities for land revaluation (Note 8)	502	536	4,723
Acceptances and guarantees	22,015	21,801	207,161
Other liabilities (Note 9)	11,460	20,397	107,838
Total liabilities	2,646,213	2,734,916	24,900,846
Net assets (Note 14):			
Common stock	18,000	18,000	169,379
Capital surplus	29,261	29,272	275,345
Retained earnings	48,634	45,519	457,645
Treasury stock	(5)	(9)	(47)
Total shareholders' equity	95,890	92,781	902,324
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities (Note 5)	19,168	18,808	180,370
Revaluation reserve for land (Note 8)	1,090	1,127	10,256
Remeasurements of defined benefit plans	(644)	(945)	(6,060)
Total accumulated other comprehensive income	19,614	18,990	184,567
Non-controlling interests	250	165	2,352
Total net assets	115,756	111,937	1,089,263
Total liabilities and net assets	¥ 2,761,970	¥ 2,846,854	$ 25,990,119

See notes to consolidated financial statements.

(Concluded)

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Income:			
Interest income:			
Interest on loans and discounts	¥ 21,996	¥ 22,903	$ 206,982
Interest and dividends on securities	12,785	11,625	120,306
Other	36	29	338
Fees and commissions	8,555	8,720	80,502
Other operating income	3,830	6,151	36,040
Other income	3,970	2,758	37,357
Total income	51,175	52,188	481,556
Expenses:			
Interest expenses:			
Interest on deposits	1,518	2,126	14,284
Interest on payables under securities lending transactions	602	803	5,664
Interest on borrowings and rediscounts	73	76	686
Interest on bonds payable	44	134	414
Other	5	6	47
Fees and commissions	3,634	3,529	34,195
Other operating expenses	6,258	5,574	58,887
General and administrative expenses (Note 15)	29,854	29,735	280,925
Provision of allowance for loan losses	763	2,752	7,179
Other expenses (Notes 16 and 17)	2,158	1,564	20,306
Total expenses	44,913	46,306	422,631
Income before income taxes	6,261	5,881	58,915
Income taxes (Note 20):			
Current	1,710	1,330	16,091
Deferred	236	(103)	2,220
Total income taxes	1,947	1,226	18,321
Net income	4,314	4,654	40,594
Net income attributable to non-controlling interests	32	27	301
Net income attributable to owners of parent	¥ 4,281	¥ 4,627	$ 40,284

	Yen		U.S. dollars
Per share of common stock (Note 25):			
Basic net income	¥ 22.98	¥ 25.18	$ 0.2162
Diluted net income	18.38	20.63	0.1729
Cash dividends applicable to the year	6.00	6.00	0.0564

See notes to consolidated financial statements.

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2018 and 2017

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2018		2017		2018	
Net income	¥	4,314	¥	4,654	$	40,594
Other comprehensive income (Note 18):						
Unrealized gain (loss) on available-for-sale securities		388		(11,256)		3,651
Remeasurements of defined benefit plans		301		94		2,832
Total other comprehensive income (loss)		689		(11,162)		6,483
Comprehensive income (loss)	¥	5,004	¥	(6,507)	$	47,087
Total comprehensive income (loss) attributable to:						
Owners of parent	¥	4,949	¥	(6,533)	$	46,570
Non-controlling interests		54		25		508

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets
Years Ended March 31, 2018 and 2017

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain (loss) on available-for-sale securities	Revaluation reserve for land	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of April 1, 2016	¥ 18,000	¥ 27,757	¥ 42,652	¥ (4)	¥ 88,405	¥ 30,064	¥ 1,134	¥ (1,040)	¥ 30,158	¥ 1,471	¥ 120,035
Cash dividends			(1,768)		(1,768)						(1,768)
Net income attributable to owners of parent			4,627		4,627						4,627
Acquisition of treasury stock				(107)	(107)						(107)
Sale of treasury stock		93		102	195						195
Purchase of shares of consolidated subsidiaries		1,421			1,421						1,421
Reversal of revaluation reserve for land			7		7						7
Net changes of items other than shareholders' equity						(11,255)	(7)	94	(11,168)	(1,305)	(12,473)
Balance as of March 31, 2017	18,000	29,272	45,519	(9)	92,781	18,808	1,127	(945)	18,990	165	111,937
Cash dividends			(1,203)		(1,203)						(1,203)
Net income attributable to owners of parent			4,281		4,281						4,281
Acquisition of treasury stock				(0)	(0)						(0)
Sale of treasury stock		(0)		5	4						4
Purchase of shares of consolidated subsidiaries		(9)			(9)						(9)
Reversal of revaluation reserve for land			36		36						36
Net changes of items other than shareholders' equity						359	(36)	301	624	85	709
Balance as of March 31, 2018	¥ 18,000	¥ 29,261	¥ 48,634	¥ (5)	¥ 95,890	¥ 19,168	¥ 1,090	¥ (644)	¥ 19,614	¥ 250	¥ 115,756

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain (loss) on available-for-sale securities	Revaluation reserve for land	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of March 31, 2017	$ 169,379	$ 275,449	$ 428,333	$ (84)	$ 873,068	$ 176,983	$ 10,605	$ (8,892)	$ 178,695	$ 1,552	$1,053,326
Cash dividends			(11,320)		(11,320)						(11,320)
Net income attributable to owners of parent			40,284		40,284						40,284
Acquisition of treasury stock				(0)	(0)						(0)
Sale of treasury stock		(0)		47	37						37
Purchase of shares of consolidated subsidiaries		(84)			(84)						(84)
Reversal of revaluation reserve for land			338		338						338
Net changes of items other than shareholders' equity						3,378	(338)	2,832	5,871	799	6,671
Balance as of March 31, 2018	$ 169,379	$ 275,345	$ 457,645	$ (47)	$ 902,324	$ 180,370	$ 10,256	$ (6,060)	$ 184,567	$ 2,352	$1,089,263

See notes to consolidated financial statements.

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Operating activities:			
Income before income taxes	¥ 6,261	¥ 5,881	$ 58,915
Adjustments for:			
Income taxes—paid	(1,341)	(2,558)	(12,618)
Depreciation and amortization	2,663	2,368	25,058
Loss on impairment—fixed assets	255	22	2,399
Amortization of goodwill	-	15	-
Change in allowance for loan losses	(1,905)	129	(17,926)
Change in defined benefit asset	273	216	2,568
Change in defined benefit liability	131	177	1,232
Change in provision for reimbursement of deposits	115	(25)	1,082
Change in provision for contingent loss	75	20	705
Change in other provisions	(13)	0	(122)
Interest income	(34,818)	(34,557)	(327,637)
Interest expenses	2,244	3,148	21,116
Gain on securities—net	102	(2,380)	959
Loss (gain) on money held in trust—net	(1,050)	(204)	(9,880)
Foreign exchange loss—net	5	1	47
Loss on sale and disposal of fixed assets—net	71	82	668
Loss on reduction of non-current assets	100	-	940
Subsidy income	(100)	-	(940)
Net change in loans and bills discounted	20,958	(10,345)	197,214
Net change in deposits	36,785	(41,001)	346,146
Net change in negotiable certificates of deposit	(41,752)	(3,868)	(392,886)
Net change in trading account securities	401	(50)	3,773
Net change in borrowed money, excluding subordinated borrowings	(1,300)	(4,600)	(12,232)
Net change in due from banks, excluding due from Bank of Japan	2,858	1,065	26,893
Net change in call loans and bills bought	(279)	(185)	(2,625)
Net change in call money and bills sold	-	(20,000)	-
Net change in payables under securities lending transactions	(69,011)	50,959	(649,393)
Net change in foreign exchange assets	(89)	829	(837)
Net change in foreign exchange liabilities	15	26	141
Interest received	35,785	35,594	336,736
Interest paid	(2,701)	(3,623)	(25,416)
Other—net	(42,612)	(6,854)	(400,978)
Total adjustments	(94,133)	(35,599)	(885,790)
Net cash provided by (used in) operating activities —(Forward)	¥ (87,872)	¥ (29,718)	$ (826,874)

(Continued)

FIDEA Holdings Co. Ltd. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net cash provided by (used in) operating activities —(Forward)	¥ (87,872)	¥ (29,718)	$ (826,874)
Investing activities:			
Purchase of securities	(330,522)	(367,477)	(3,110,209)
Proceeds from sales of securities	398,526	303,069	3,750,127
Proceeds from maturity of securities	114,332	115,562	1,075,863
Increase in money held in trust	(5,000)	(2,500)	(47,049)
Decrease in money held in trust	1,483	940	13,955
Purchase of tangible fixed assets	(2,702)	(4,374)	(25,425)
Proceeds from sales of tangible fixed assets	189	84	1,778
Purchase of intangible fixed assets	(341)	(706)	(3,208)
Proceeds from subsidy income	39	-	366
Net cash provided by (used in) investing activities	176,006	44,599	1,656,215
Financing activities:			
Redemption of subordinated bonds	(5,000)	-	(47,049)
Repayment of lease obligations	(76)	(57)	(715)
Dividends paid	(1,201)	(1,763)	(11,301)
Dividends paid to non-controlling shareholders	-	(2)	-
Purchase of treasury stock	(0)	(0)	(0)
Proceeds from sales of treasury stock	3	236	28
Net cash used in financing activities	(6,274)	(1,587)	(59,038)
Effect of exchange rate change on cash and cash equivalents	(5)	(1)	(47)
Net increase (decrease) in cash and cash equivalents	81,854	13,292	770,245
Cash and cash equivalents at the beginning of year	72,289	58,997	680,239
Cash and cash equivalents at the end of year (Note 19)	¥ 154,143	¥ 72,289	$ 1,450,484

See notes to consolidated financial statements.

(Concluded)

1. Basis of Presentation

FIDEA Holdings Co. Ltd. (the “Company”) is a holding company and conducts its operations through its subsidiaries and affiliates. The Company was established as a joint holding company between The Shonai Bank, Ltd. (“Shonai”) and The Hokuto Bank, Ltd. (“Hokuto”) on October 1, 2009 by way of a transfer of shares.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, the Ordinance for the Enforcement of the Banking Act of Japan (the “Banking Act”) and the Companies Act of Japan (the “Companies Act”), and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

In preparing the accompanying consolidated financial statements, Japanese yen amounts are presented in millions of yen by rounding down figures to the nearest million. As a result, the totals in yen in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥106.27 = U.S.$1.00, the exchange rate prevailing on March 31, 2018. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

2. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 6 subsidiaries (collectively the “Group”) as of March 31, 2018 and 2017.

Under the control of influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated. The Company has 4 unconsolidated subsidiaries as of March 31, 2018 and 2017.

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

The excess of the acquisition cost over the underlying equity in the net assets of the consolidated subsidiaries measured at fair value at their respective dates of acquisition is presented as “goodwill” and is amortized by the straight-line method over a period of five years. Insignificant amounts of goodwill are fully charged to income in the fiscal year when it is incurred.

The balance sheet dates of all 6 subsidiaries are March 31.

Those companies over which the Company has the ability to exercise significant influence, but does not control are accounted for using the equity method. However, the Company has no affiliates to be accounted for using the equity method.

3. Significant Accounting Policies

(1) Trading account securities

Trading account securities are stated at fair value as of the balance sheet date, and cost of trading account securities sold is determined principally using the moving-average method.

(2) Securities

Non-trading securities are classified into two categories: held-to-maturity debt securities and available-for-sale securities. Held-to-maturity debt securities are carried at amortized cost being determined by the moving-average method. Available-for-sale securities are generally stated at fair value determined based on the quoted market price as of the balance sheet date, except for equity securities which are stated at fair value determined based on the average market price during one month before the balance sheet date. Cost of sales of theses available-for-sale securities is principally determined using the moving-average method. Available-for-sale securities, for which it is extremely difficult to determine the fair value, are stated at cost determined by the moving-average method.

Unrealized gain or loss on available-for-sale securities is recorded under net assets, net of income taxes.

(3) Securities held in money trusts

Securities that are part of trust assets in independently managed money trusts with the primary purpose to manage securities are stated at fair value as of the balance sheet date.

(4) Derivatives

Derivatives are stated at fair value.

(5) Tangible fixed assets

Depreciation of tangible fixed assets of the Group, except for lease assets, is calculated by the straight-line method. The principal useful lives are as follows:

Buildings	5 to 50 years
Others	4 to 20 years

The Group leases automated teller machines, etc. under finance lease arrangements as a lessee.

Lease assets under finance lease arrangements which do not transfer ownership of the lease assets to the lessee are depreciated over the respective lease contract periods using the straight-line method with salvage values defined in the lease contracts, otherwise with no residual value.

(6) Intangible fixed assets

Intangible fixed assets, except for lease assets, are amortized by the straight-line method. Amortization of the cost of software intended for internal use is calculated by the straight-line method based on a useful life (principally five years) determined by the Group.

(7) Allowance for loan losses

Allowance for loan losses is provided by the consolidated banking subsidiaries and other major consolidated subsidiaries in accordance with the prescribed standards. For claims on borrowers who have declared bankruptcy or have commenced special liquidation proceedings or similar legal proceedings (the "bankrupt borrowers"), or borrowers who are not legally or formally insolvent but are regarded as substantially in the same situation (the "virtually bankrupt borrowers"), an allowance is generally provided based on the carrying amount of the claims, after the write-off stated below, net of the expected amount recoverable from collateral and guarantees.

For claims on borrowers who are not currently bankrupt but are likely to become bankrupt (the "potentially bankrupt borrowers"), an allowance is provided at the amount deemed necessary based on the overall solvency assessment of the borrowers and the amount of the claims, net of the expected amount recoverable from collateral and guarantees.

For other claims, an allowance is provided based on the historical loan-loss ratio calculated from past experiences during a certain period after categorizing into definite types.

All claims are assessed for the quality by the Asset Assessment Department with the cooperation by operating offices in accordance with the Standards for Asset Self-Assessment, and then the assessment results are audited by the Asset Audit Department which is independent from the Asset Assessment Department.

For collateralized or guaranteed claims on the bankrupt borrowers and virtually bankrupt borrowers of Hokuto and certain consolidated subsidiaries, the amount of the claims exceeding the estimated value of collateral and guarantees is deemed to be uncollectible and is charged off against the total amount of the outstanding claims. These write-offs amounted to ¥12,073 million ($113,606 thousand) and ¥10,506 million for the years ended March 31, 2018 and 2017, respectively.

Allowances for loan losses of other consolidated subsidiaries are provided based on the historical loan loss ratio.

(8) Provision for reimbursement of deposits

Provision for reimbursement of deposits is provided at an estimated amount of the future payments to be made for reimbursement claims on deposits which were derecognized and credited from liability to income.

(9) Provision for contingent loss

Provision for contingent loss is provided at an estimated amount of the future payments to be made for a burden charge to the Credit Guarantee Corporations in connection with the responsibility-sharing system.

(10) Other provisions

Other provisions include provision for point service program of the consolidated subsidiaries.
Provision for point service program relating to credit business engaged by consolidated subsidiaries is provided for the future burdens when the service will be used at the necessary amount based on the reasonably estimated amount to be used in future.

(11) Retirement benefits

The benefit formula method is used as a method of attributing expected retirement benefits to each period in calculating retirement benefit obligation.

Past service costs are amortized by the straight-line method over a certain period (five years) within the average remaining years of service of the eligible employees when such past service costs occur at Shonai, a consolidated subsidiary of the Company.

Actuarial gains and losses are amortized from the year following the year in which the gains and losses occur by the straight-line method over a certain period of 10 to 15 years within the average remaining years of service of the eligible employees when such actuarial gains and losses occur.

Certain consolidated subsidiaries adopt the simplified method in calculating defined benefit liability and retirement benefit expenses. Under this method, the severance payment amount required at the fiscal year-end for voluntary termination is deemed as retirement benefit obligations.

(12) Foreign currency translation

The assets and liabilities denominated in foreign currencies of the consolidated subsidiaries are translated into Japanese yen at the exchange rates in effect at the balance sheet date.

(13) Hedge accounting

Interest rate risk hedging

With respect to the hedge accounting for the interest rate risk arising from financial assets and liabilities of the consolidated banking subsidiaries, the Group applies deferral hedge accounting, under which gains or losses on derivatives are deferred until maturity of the hedged transactions, as stipulated in the Japanese Institute of Certified Public Accountants ("JICPA") Industry Audit Committee Report No. 24 (February 13, 2002). With respect to hedging transactions to offset fluctuations of the market price, the effectiveness of hedging transactions is assessed by specifying the hedged items such as deposits and loans and bills discounted and hedging instruments such as interest rate swaps after grouping these items by definite remaining maturity. With respect to hedging transactions to fix cash flows, the effectiveness of hedging is assessed by verifying the correlation of interest floating factors of hedged items and hedging instruments.

Foreign exchange risk hedging

With respect to the hedge accounting for the foreign exchange risk arising from financial assets and liabilities denominated in foreign currencies of the consolidated banking subsidiaries, the Group applies deferral hedge accounting, under which gains or losses on derivatives are deferred until maturity of the

hedged transactions, as stipulated in the JICPA Industry Audit Committee Report No. 25 (July 29, 2002). Hedge effectiveness is assessed by comparing the amount of monetary assets and liabilities denominated in foreign currencies as underlying hedged items with the corresponding foreign-currency amount of the respective hedging instruments such as currency swaps and foreign exchange swaps entered into in order to hedge foreign exchange risk associated with monetary assets and liabilities denominated in foreign currencies.
In addition, in order to hedge foreign exchange risk of available-for-sale securities denominated in foreign currencies except for debt securities, the fair value hedge is applied as portfolio hedging on the condition that liabilities of spot and forward foreign exchange contracts exceeding the acquisition costs of the foreign currency denominated securities on a basis of foreign currency exist, designating the issues of foreign currency denominated securities to be hedged in advance.

(14) Cash and cash equivalents

In preparing the consolidated statements of cash flows, of cash and due from banks in the consolidated balance sheets, cash and due from Bank of Japan ("BoJ") are considered to be cash and cash equivalents.

(15) Consumption taxes

Transactions are principally stated exclusive of national and local consumption taxes.

(16) Accounting standard and guidance issued but not yet applied

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(i) Overview

Conducting a joint project to clarify the comprehensive principles for recognizing revenues, the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") in the US issued "Revenues from Contracts with Customers" (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. IFRS 15 shall be effective from a fiscal period beginning on or after January 1, 2018 and Topic 606 shall be effective from a fiscal period beginning after December 15, 2017. Under these circumstances, ASBJ also developed a comprehensive accounting standard for revenue recognition and issued a new standard together with its implementation guidance.
As a basic policy for the development of the new standard, ASBJ determined to adopt the core principles of IFRS 15 in order to enhance comparability of financial statements, which is one of the benefits aligning with IFRS 15. In addition, for any practical issue to be considered in Japan, alternative treatment shall be added to the extent that comparability is not impaired.

(ii) Scheduled date of application

The Company and its consolidated subsidiaries will apply the new accounting standard and implementation guideline effective from the fiscal year beginning on April 1, 2021.

(iii) Effect from the application of the new accounting standard and implementation guideline

The effect from the application of the new accounting standard and implementation guideline is currently under evaluation.

4. Securities

Gain and loss from revaluation of trading account securities included in the consolidated statements of income was immaterial in amount for the years ended March 31, 2018 and 2017.

Securities at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		
March 31, 2018	Carrying amount	Acquisition cost	Unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 19,250	¥ 9,966	¥ 9,284
Debt securities:	438,922	427,252	11,669
Japanese government bonds	194,051	189,407	4,644
Municipal bonds	167,893	163,111	4,782
Corporate bonds	76,977	74,734	2,242
Other	85,019	72,583	12,435
Subtotal	¥ 543,192	¥ 509,803	¥ 33,389
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 4,026	¥ 4,383	¥ (356)
Debt securities:	63,977	64,538	(561)
Japanese government bonds	5,947	6,011	(63)
Municipal bonds	42,772	43,152	(380)
Corporate bonds	15,257	15,374	(117)
Other	129,979	134,851	(4,872)
Subtotal	¥ 197,983	¥ 203,773	¥ (5,790)
Total	¥ 741,175	¥ 713,577	¥ 27,598

March 31, 2017	Millions of yen Carrying amount	Acquisition cost	Unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 19,275	¥ 11,157	¥ 8,117
Debt securities:	525,091	510,790	14,300
Japanese government bonds	235,681	229,515	6,165
Municipal bonds	192,733	187,206	5,527
Corporate bonds	96,675	94,068	2,607
Other	114,779	101,639	13,140
Subtotal	¥ 659,146	¥ 623,587	¥ 35,558
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities:			
Equity securities	¥ 2,067	¥ 2,205	¥ (137)
Debt securities:	69,357	70,244	(887)
Japanese government bonds	10,346	10,509	(162)
Municipal bonds	42,054	42,648	(594)
Corporate bonds	16,956	17,086	(130)
Other	203,442	210,940	(7,497)
Subtotal	¥ 274,867	¥ 283,390	¥ (8,523)
Total	¥ 934,013	¥ 906,978	¥ 27,035

As of March 31, 2018 and 2017, ¥276 million ($2,597 thousand) and ¥214 million of capital investment in unconsolidated subsidiary were included in the balance of securities, respectively.

March 31, 2018	Thousands of U.S. dollars Carrying amount	Acquisition cost	Unrealized gain (loss)
Securities whose carrying amount exceeds their acquisition cost:			
Held-to-maturity debt securities	$ -	$ -	$ -
Available-for-sale securities:			
Equity securities	$ 181,142	$ 93,779	$ 87,362
Debt securities:	4,130,253	4,020,438	109,805
Japanese government bonds	1,826,018	1,782,318	43,700
Municipal bonds	1,579,872	1,534,873	44,998
Corporate bonds	724,353	703,246	21,097
Other	800,028	683,005	117,013
Subtotal	$ 5,111,433	$ 4,797,242	$ 314,190
Securities whose carrying amount does not exceed their acquisition cost:			
Held-to-maturity debt securities	$ -	$ -	$ -
Available-for-sale securities:			
Equity securities	$ 37,884	$ 41,244	$ (3,349)
Debt securities:	602,023	607,302	(5,279)
Japanese government bonds	55,961	56,563	(592)
Municipal bonds	402,484	406,060	(3,575)
Corporate bonds	143,568	144,669	(1,100)
Other	1,223,101	1,268,947	(45,845)
Subtotal	$ 1,863,018	$ 1,917,502	$ (54,483)
Total	$ 6,974,451	$ 6,714,754	$ 259,696

Available-for-sale securities sold for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		
March 31, 2018	Sales proceeds	Realized gain	Realized loss
Equity securities	¥ 7,938	¥ 1,733	¥ 164
Debt securities:	110,216	1,245	57
Japanese government bonds	59,853	772	20
Municipal bonds	44,928	471	31
Corporate bonds	5,434	1	5
Other	287,083	1,518	4,347
Total	¥ 405,238	¥ 4,497	¥ 4,568

	Millions of yen		
March 31, 2017	Sales proceeds	Realized gain	Realized loss
Equity securities	¥ 7,486	¥ 746	¥ 437
Debt securities:	85,201	2,357	305
Japanese government bonds	31,225	713	286
Municipal bonds	52,454	1,634	11
Corporate bonds	1,522	10	7
Other	210,926	3,295	3,231
Total	¥ 303,615	¥ 6,399	¥ 3,973

	Thousands of U.S. dollars		
March 31, 2018	Sales proceeds	Realized gain	Realized loss
Equity securities	$ 74,696	$ 16,307	$ 1,543
Debt securities:	1,037,131	11,715	536
Japanese government bonds	563,216	7,264	188
Municipal bonds	422,772	4,432	291
Corporate bonds	51,133	9	47
Other	2,701,449	14,284	40,905
Total	$3,813,286	$ 42,316	$ 42,984

Write-down of securities

Non-trading securities, with the exception of those whose fair value is extremely difficult to determine, whose fair value significantly declined compared with their acquisition cost and is not considered to be able to recover their acquisition cost, are written down to their respective fair value which is recorded as the carrying amount on the consolidation balance sheet. The related loss on revaluation is charged to income for the year.

For the year ended March 31, 2018, ¥27 million ($254 thousand) of available-for-sale securities were written down. Of which, equity securities were ¥27 million ($254 thousand). For the year ended March 31, 2017, ¥28 million of available-for-sale securities were written down. Of which, equity securities were ¥0 million and other securities were ¥28 million.

The criteria for determining whether the fair value is “significantly declined” are as follows:
(1) If the fair value as of the balance sheet date declines 50% or more compared to the acquisition cost, the difference is recognized as write-down of securities.
(2) If the fair value as of the balance sheet date declines by 30% or more but less than 50% compared to the acquisition cost, write-down of securities is recognized for the securities which meets criteria of the Group after considering the financial condition of the issuer and past trend of the market value for a certain period.

5. Unrealized Gain and Loss on Available-for-Sale Securities

Unrealized gain (loss) on available-for-sale securities at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gain:	¥ 27,598	¥ 27,035	$ 259,696
Available-for-sale securities	27,598	27,035	259,696
Money held in trust	-	-	-
Deferred tax liabilities	(8,400)	(8,225)	(79,043)
Unrealized gain on available-for-sale securities before adjustments by equity interest:	19,198	18,810	180,653
Non-controlling interests	(29)	(1)	(272)
Unrealized gain on available-for-sale securities	¥ 19,168	¥ 18,808	$ 180,370

6. Loans and Bills Discounted and Risk Monitored Loans

Loans and bills discounted

Bills discounted are accounted for as financial transactions rather than as purchased bills in accordance with JICPA Industry Audit Committee Report No. 24 “Treatment of Accounting and Auditing concerning Application of Accounting Standard for Financial Instruments in Banking Industry” (February 13, 2002). The Group has the right to sell or pledge (repledge) such bills without any restrictions. These include commercial bills discounted and foreign exchange bills purchased, etc. The total face value of such financial transactions at March 31, 2018 and 2017 amounted to ¥4,919 million ($46,287 thousand) and ¥5,185 million, respectively.

Contracts for overdraft facilities and loan commitments are contracts under which the Group lends money to customers up to their prescribed limits at the customers’ request as long as there are no violations of any of the conditions in the contracts. The aggregate unutilized balances within the limits of these contracts totaled ¥307,257 million ($2,891,286 thousand) and ¥293,324 million at March 31, 2018 and 2017, respectively, including the contracts whose contractual periods were either less than one year or revocable at any time, in the amount of ¥278,438 million ($2,620,099 thousand) and ¥282,779 million, respectively.

Since many of these commitments expire without being fully utilized, the unutilized amounts do not necessarily represent future cash commitments of the consolidated subsidiaries. Most of these contracts include provisions which stipulate that the consolidated subsidiaries can reject customers’ requests or decrease the contract limits for an appropriate reason, such as a change in financial situation and preservation of claims. At the inception of the contracts, they obtain collateral in the form of real estate, securities, and so forth, if deemed necessary. Subsequently, they, based on its internal rules, perform periodic reviews of the customers’ business results and may take necessary measures such as reconsidering the terms and conditions of the contracts and/or requiring additional collateral or guarantees.

Risk monitored loans

Risk monitored loans which were included in loans and bills discounted at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans to bankrupt borrowers	¥ 1,192	¥ 1,951	$ 11,216
Delinquent loans	29,720	31,689	279,665
Loans past due for 3 months or more	-	-	-
Restructured loans	3,059	4,479	28,785
Total	¥ 33,971	¥ 38,120	$ 319,666

Loans to bankrupt borrowers represent non-accrual loans to borrowers who are legally bankrupt as defined in Articles 96-1-3 and 96-1-4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order No. 97 of 1965).

Delinquent loans represent non-accrual loans other than (i) loans to bankrupt borrowers and (ii) loans on which interest payments have been suspended in order to facilitate or support the reconstruction of borrowers who are experiencing financial difficulties.

Loans past due for 3 months or more represent loans on which the payment of principal and/or interest has not been received for three months or more from the day after the due date, and which are not classified as "loans to bankrupt borrowers" or "delinquent loans."

Restructured loans are loans which have been restructured to facilitate or support the reconstruction of borrowers who are experiencing financial difficulties, with the intention of ensuring the recovery of the loans by providing more flexible repayment terms for the borrowers (such as reducing the rate of interest, suspending the payment of principal/interest, forgiving debt, etc.) and loans which are not classified in any of the above categories.

The amounts presented in the table above are stated before deducting the amount of allowance for loan losses.

7. Tangible Fixed Assets

At March 31, 2018 and 2017, accumulated depreciation of tangible fixed assets was ¥32,076 million ($301,834 thousand) and ¥32,225 million, respectively.

The amounts of advanced depreciation by reduction of carrying amount of assets as of and for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance as of the fiscal year-end	¥ 1,237	¥ 1,157	$ 11,640
Amount applicable for the year	100	-	940

8. Revaluation of Land

In accordance with the "Act on Revaluation of Land" (Act No. 34 of March 31, 1998), land used for business operations of Shonai was revalued as of the date indicated below. The excess of revaluation to carrying amount at the time of revaluation, net of income taxes corresponding to the excess which are recognized as "Deferred tax liabilities for land revaluation," is stated as "Revaluation reserve for land" under net assets.

Date of revaluation: September 30, 1999

The method of revaluation of asset set forth in Article 3, Paragraph 3 of the "Act on Revaluation of Land":

Fair values are determined based on the land price registered in the book of taxation on land stipulated in Article 2-3 of the "Order for Enforcement of Act on Revaluation of Land" (the "Ordinance") (Cabinet Order No. 119 of March 31, 1998), with price adjustments by shape and time and the appraisal value by an independent real estate appraiser as provided by Article 2-5 of the Ordinance.

The difference between the total fair values of land used for business operations revalued pursuant to Article 10 of the "Act on Revaluation of Land" and carrying amount after revaluation of the relevant land at March 31, 2018 and 2017 was ¥1,494 million ($14,058 thousand) and ¥1,609 million, respectively.

9. Borrowed Money and Lease Obligations

Borrowed money and lease obligations at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars	Average interest rate	
	2018	2017	2018	(%)	Maturity
Borrowed money	¥ 15,100	¥ 16,400	$ 142,090	0.48	June 2018 through Apr. 2024
Current portion of lease obligations	63	72	592	1.35	
Lease obligations, less current portion	129	158	1,213	0.92	Apr. 2019 through Sept. 2022

Note: Average interest rate is calculated based on the interests and the balances as of the balance sheet date by the weighted average method.

Annual maturities of borrowed money and lease obligations within five years at March 31, 2018 are as follows:

	Millions of yen				
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Borrowed money	¥ 1,700	¥ 4,300	¥ 1,400	¥ 2,700	¥ -
Lease obligations	63	53	39	30	5

	Thousands of U.S. dollars				
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Borrowed money	$ 15,996	$ 40,462	$ 13,173	$ 25,406	$ -
Lease obligations	592	498	366	282	47

Note: Lease obligations are included in "Other liabilities" in the accompanying consolidated balance sheet.

Subordinated borrowings of ¥5,000 million ($47,049 thousand) and ¥5,000 million were included in borrowed money at March 31, 2018 and 2017, respectively.

10. Assets Pledged

Assets pledged as collateral at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Securities	¥ 72,843	¥ 143,563	$ 685,452

The liabilities secured by the above pledged assets at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Payables under securities lending transactions	¥ 60,778	¥ 129,789	$ 571,920
Borrowed money	10,100	11,400	95,040

In addition to the pledged assets listed above, the following assets are pledged as collateral of domestic exchange transactions or as margins on futures contracts at March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Securities	¥ 126,323	¥ 180,533	$ 1,188,698
Cash and due from banks	8	8	75
Other assets	41,063	6,300	386,402

Note: Other assets include guarantee deposits in the amount of ¥551 million ($5,184 thousand) and ¥567 million at March 31, 2018 and 2017, respectively.

11. Bonds Payable

Bonds payable at March 31, 2017 consisted of ¥5,000 million of Shonai 5th subordinated bonds. In the year ended March 31, 2018, the bonds were fully redeemed before the original redemption date of July 27, 2022.

12. Retirement Benefit Plans

Shonai, a consolidated banking subsidiary of the Company, has a funded defined benefit corporate pension plan and an unfunded lump-sum payment plan as defined benefit plans to provide for employees' retirement benefits. Under the defined benefit corporate pension plan, a lump-sum payment or pension is provided based on the base salary used for retirement benefits calculation and service years. In addition, this plan is a type of quasi cash balance plan. Under the lump-sum payment plan, a lump-sum payment is provided as a retirement benefit based on the base salary used for retirement benefits calculation and service years.

Hokuto, a consolidated banking subsidiary of the Company, has a funded defined benefit corporate pension plan and a funded lump-sum payment plan as defined benefit plans to provide for employees' retirement benefits. Under the defined benefit corporate pension plan, pension or a lump-sum payment is provided based on service years. Hokuto maintains a cash balance plan for defined benefit corporate pension plan and a virtual individual account balance which is corresponding to each participant's funded amount and the source of pension amount is established under this plan. In this virtual individual account balance, mainly interest credits based on the trend of market interest rate and contributed credits based on the interest granted each month are accumulated.

Under the lump-sum payment plan, points are accumulated during the service based on the service years and the functional classes. Employees who terminate their employment are entitled to lump-sum payments based on the accumulated points at the time of the termination multiplied by unit price by point and additional benefits based on the functional class at the time of the termination. A retirement benefit trust is established for the lump-sum payment plan.

Each of Shonai and Hokuto has a defined contribution corporate pension plan as the defined contribution plan.

Certain consolidated subsidiaries other than consolidated banking subsidiaries have unfunded defined benefit pension plans (lump-sum payment plans only). These consolidated subsidiaries adopt the simplified method in calculating defined benefit liability and retirement benefit expenses under lump-sum payment plans.

Defined benefit pension plans

(1) Reconciliation between retirement benefit obligations at beginning of year and end of year

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations at beginning of year	¥ 13,819	¥ 14,039	$ 130,036
Service costs	491	477	4,620
Interest costs	16	9	150
Actuarial gains and losses arising during year	86	67	809
Retirement benefits paid	(730)	(774)	(6,869)
Retirement benefit obligations at end of year	¥ 13,683	¥ 13,819	$ 128,756

(2) Reconciliation between plan assets at beginning of year and end of year

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at beginning of year	¥ 11,748	¥ 12,119	$ 110,548
Expected return on plan assets	151	155	1,420
Actuarial gains and losses	326	(46)	3,067
Contribution from employer	113	181	1,063
Retirement benefits paid	(574)	(662)	(5,401)
Plan assets at end of year	¥ 11,766	¥ 11,748	$ 110,717

Note: Retirement benefit trust is included in plan assets.

(3) Reconciliation between retirement benefit obligations and plan assets at end of year and defined benefit liability and defined benefit asset on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligation	¥ 11,814	¥ 11,840	$ 111,169
Plan assets	(11,766)	(11,748)	(110,717)
	48	92	451
Unfunded retirement benefit obligation	1,868	1,978	17,577
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 1,917	¥ 2,071	$ 18,038

	Millions of yen		Thousands of U.S. dollars
Defined benefit liability	¥ 2,266	¥ 2,690	$ 21,323
Defined benefit asset	(348)	(618)	(3,274)
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 1,917	¥ 2,071	$ 18,038

Note: Retirement benefit trust is included in plan assets.

(4) Retirement benefit expenses and components thereof

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service costs	¥ 491	¥ 477	$ 4,620
Interest costs	16	9	150
Expected return on plan assets	(151)	(155)	(1,420)
Amortization of actuarial gains and losses	234	282	2,201
Amortization of past service costs	(42)	(42)	(395)
Other	1	22	9
Retirement benefit expenses on defined benefit plans	¥ 549	¥ 593	$ 5,166

Note: Retirement benefit expenses of the consolidated subsidiaries adopting the simplified method are collectively included in "Service costs."

(5) Components of items recorded in remeasurements of defined benefit plans in other comprehensive income, before tax, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Past service costs	¥ (42)	¥ (42)	$ (395)
Actuarial gains and losses	474	168	4,460
Total	¥ 432	¥ 126	$ 4,065

(6) Components of items recorded in remeasurements of defined benefit plans in accumulated other comprehensive income, before tax, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized past service costs	¥ (31)	¥ (73)	$ (291)
Unrecognized actuarial gains and losses	864	1,339	8,130
Total	¥ 833	¥ 1,265	$ 7,838

(7) Components of plan assets

(a) Percentages to total plan by major category are as follows:

	2018	2017
Debt securities	36.3%	43.4%
Equity securities	36.6	31.0
Cash and deposits	11.8	14.9
Call loans	0.2	3.2
General account	6.2	6.2
Other	8.9	1.3
Total	100.0%	100.0%

Note: 30.3% and 30.7% of the total plan assets consisted of the retirement benefit trust established for the lump-sum payment plan as of March 31, 2018 and 2017, respectively.

(b) Determination of expected long-term rate of plan assets

The expected long-term rate of return on plan assets is determined considering current and expected distribution of plan assets and current and expected long-term rate of return derived from various components of plan assets.

(8) Actuarial assumptions at end of year

	2018	2017
Discount rate	0.00% - 0.18%	0.01% - 0.24%
Expected long-term rate of return on plan assets	1.00% - 1.50%	1.00% - 1.50%
Expected rate of salary increase (Note)	3.61%	3.61%

Note: Hokuto maintains a cash balance plan for the defined benefit corporate pension plan, and a point system is adopted for the lump-sum payment plan. Accordingly, the expected rate of salary increase is not included in the basis for calculation of retirement benefit obligations and others for the years ended March 31, 2018 and 2017.

Defined contribution pension plans

The amounts to be contributed to the defined contribution pension plans of the Company and its consolidated subsidiaries were ¥163 million ($1,533 thousand) and ¥157 million as of March 31, 2018 and 2017, respectively.

13. Contingent Liabilities

Guarantee liabilities for corporate bonds acquired through private offering (as defined in Article 2-3 of the Financial Instruments and Exchange Act) among those classified as corporate bonds in “Securities” amounted to ¥8,070 million ($75,938 thousand) and ¥7,507 million at March 31, 2018 and 2017, respectively.

14. Shareholders’ Equity

Japanese banks are required to comply with the Banking Act and the Companies Act. The Companies Act stipulates that neither additional paid-in capital nor the legal reserve is available for dividends, but that both may be used to reduce or eliminate a deficit. Under the Banking Act, an amount which is at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period is to be appropriated to the legal reserve until the aggregate amount of the legal reserve and the capital surplus account equals 100% of the amount of share capital. The Companies Act also provides that if the aggregate amount of additional paid-in capital and the legal reserve exceeds 100% of the amount of share capital, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

The maximum amount which the bank can distribute as dividends is calculated based on the non-consolidated financial statements of the bank and in accordance with the Companies Act.

Movements in common stock, preferred stock and treasury stock during the years ended March 31, 2018 and 2017 are summarized as follows:

	Number of shares (in thousands)				
	April 1, 2017	Increase	Decrease	March 31, 2018	Ref.
Issued shares:					
Common stock	181,421	-	-	181,421	
Preferred stock class B	25,000	-	-	25,000	
Total	206,421	-	-	206,421	
Treasury stock:					
Common stock	42	2	19	25	Note
Total	42	2	19	25	

Note: Increase in number of shares is due to request for purchase of less than one unit. Decrease in number of shares is due to request for sale of less than one unit and sale of the shares held by consolidated subsidiaries.

	Number of shares (in thousands)				
	April 1, 2016	Increase	Decrease	March 31, 2017	Ref.
Issued shares:					
Common stock	172,876	8,544	-	181,421	Note 1
Preferred stock class B	25,000	-	-	25,000	
Total	197,876	8,544	-	206,421	
Treasury stock:					
Common stock	20	1,499	1,478	42	Note 2
Total	20	1,499	1,478	42	

Note 1: Increase in number of shares is due to issuance of new shares in connection with the share exchange whereby FIDEA Card Co., Ltd. and FIDEA Information Systems INC became wholly-owned subsidiaries of the Company.

Note 2: Increase in number of shares is due to request for purchase of less than one unit and acquisition of shares by consolidated subsidiaries in connection with the share exchange. Decrease in number of shares is due to request for sale of less than one unit and sale of the acquired shares by consolidated subsidiaries.

15. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2018 and 2017 included the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Salaries and allowances	¥ 13,221	¥ 13,521	$ 124,409
Retirement benefit expenses	712	751	6,699

16. Other Expenses

Other expenses for the years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loss on sales of equity securities, etc.	¥ 272	¥ 476	$ 2,559
Loss on disposal of fixed assets	121	85	1,138
Impairment loss	255	22	2,399
Loss on reduction of non-current assets	100	-	940
Other	1,410	981	13,268
Total	¥ 2,158	¥ 1,564	$ 20,306

17. Impairment Loss

For the year ended March 31, 2018, with regard to assets from which cash flows declined due to decrease in income from operating activities, idle properties and assets which were determined to be sold, the Company recognized the impairment loss by writing off the carrying amount of each asset to its respective recoverable amount.

				Impairment loss	
Category	Area	Main use	Description	Millions of yen	Thousands of U.S. dollars
Business assets	Within Yamagata Prefecture	Banking office – three locations	Land and buildings	¥ 116	$ 1,091
Business assets	Within Akita Prefecture	Banking office – one location	Buildings	0	0
Business assets	Within Miyagi Prefecture	Banking office – one location	Land	52	489
Idle assets	Within Yamagata Prefecture	Idle assets – two locations	Land	25	235
Idle assets	Within Akita Prefecture	Idle assets – 21 locations	Land and buildings	14	131
Assets held for sale	Within Akita Prefecture	Banking office – one location	Land	47	442
Total				¥ 255	$ 2,399

Banking offices of consolidated subsidiaries in the banking business are grouped by office which is the minimum unit for management accounting purposes. Certain banking office group which operates in cooperation is considered as one unit, and banking offices located in the same building are also considered as one unit. For idle assets and assets held for sale, each asset is considered as the minimum unit. Head office, administrative centers and others are considered as corporate assets since they contribute to generate future cash flows of multiple assets or asset groups.

The Company and consolidated subsidiaries in other than the banking business are grouped by entity as a general rule.

The recoverable amount of relevant asset group is measured at net selling price and calculated by deducting estimated costs to sell from the amount which properly reflects the fair market value such as real estate appraisal value or roadside land prices.

The disclosure of impairment loss for the year ended March 31, 2017 was omitted due to insignificancy.

18. Other Comprehensive Income

Reclassification adjustments and income tax effect for each component of other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities:			
Gain arising during the year	¥ 461	¥ (13,935)	$ 4,338
Reclassification adjustments	102	(2,250)	959
Before income tax effect	563	(16,186)	5,297
Income tax effect	(175)	4,929	(1,646)
Unrealized gain (loss) on available-for-sale securities	388	(11,256)	3,651
Remeasurements of defined benefit plans:			
Adjustments arising during the year	240	(113)	2,258
Reclassification adjustments	192	239	1,806
Before income tax effect	432	126	4,065
Income tax effect	(131)	(31)	(1,232)
Remeasurements of defined benefit plans	301	94	2,832
Total other comprehensive income	¥ 689	¥ (11,162)	$ 6,483

19. Cash and Cash Equivalents

A reconciliation of cash and due from banks in the accompanying consolidated balance sheets to cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2018 and 2017 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and due from banks	¥ 156,177	¥ 77,180	$1,469,624
Due from banks (excluding due from BoJ)	(2,033)	(4,891)	(19,130)
Cash and cash equivalents	¥ 154,143	¥ 72,289	$1,450,484

20. Income Taxes

The tax effect of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Allowance for loan losses	¥ 7,171	¥ 7,312	$ 67,479
Defined benefit liability	1,913	1,920	18,001
Tax loss carryforwards	1,659	2,019	15,611
Depreciation	695	768	6,539
Write-down of securities	98	110	922
Other	1,214	1,037	11,423
Gross deferred tax assets	12,751	13,169	119,986
Valuation allowance	(5,918)	(5,937)	(55,688)
Total deferred tax assets	¥ 6,833	¥ 7,231	$ 64,298
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (8,400)	¥ (8,225)	$ (79,043)
Other	(601)	(597)	(5,655)
Total deferred tax liabilities	(9,001)	(8,822)	(84,699)
Net deferred tax assets (liabilities)	¥ (2,168)	¥ (1,591)	$ (20,400)

Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2018 is omitted since the difference is less than 5% of the effective statutory tax rate.
Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2017 is as follows:

	2017
Normal effective statutory tax rate	30.81%
Non-deductible expenses such as entertainment expenses	0.61
Non-taxable income such as dividend income	(7.07)
Per capita inhabitant tax	1.16
Valuation allowance	(9.86)
Consolidation adjustments	6.60
Reduction of deferred tax assets due to change in income tax rates	-
Other	(1.40)
Actual effective tax rate	20.85%

21. Segment Information

(1) Segment information

The Group has a single segment of banking business. Accordingly, segment information by reportable segment is omitted.

(2) Related information

Information by service

March 31, 2018	Millions of yen							
		Lending		Securities investment		Other		Total
Ordinary income from external customers	¥	22,104	¥	17,283	¥	11,638	¥	51,026

March 31, 2017	Millions of yen							
		Lending		Securities investment		Other		Total
Ordinary income from external customers	¥	23,088	¥	18,024	¥	11,072	¥	52,185

March 31, 2018	Thousands of U.S. dollars							
		Lending		Securities investment		Other		Total
Ordinary income from external customers	$	207,998	$	162,632	$	109,513	$	480,154

"Ordinary income" is defined as income less certain special income included in the accompanying consolidated statements of income.

Geographic information

a. Ordinary income

Information about ordinary income by geographic area for the years ended March 31, 2018 and 2017 is omitted as ordinary income from external customers in Japan was more than 90% of ordinary income in the consolidated statements of income.

b. Tangible fixed assets

Information about tangible fixed assets by geographic area as of March 31, 2018 and 2017 is omitted as tangible fixed assets in Japan was more than 90% of "Tangible fixed assets" in the consolidated balance sheets.

Information by major customer

Information by major customer for the years ended March 31, 2018 and 2017 is omitted since there was no single external customer accounting for 10% or more of the consolidated ordinary income.

22. Related Party Transactions

Transactions between the Company's consolidated subsidiaries and their directors and major shareholders as of March 31, 2018 and 2017 and for the years then ended are as follows:

2018

Type	Name	Address	Capital (Millions of yen)	Business	Ownerships of voting rights (%)	Transaction type	Transaction amount	Account	Balance at March 31, 2018
Companies, etc. whose voting rights are owned by the director (including the director of the consolidated subsidiaries) or his/her relatives	Akita Kubota Co., Ltd. Note (1)	Akita city, Akita Pref.	¥60	Agricultural machines distributor	0.0% directly held	Lending	¥123 million ($1,157 thousand)	Loans and bills discounted	¥69 million ($649 thousand)
	Netz Toyota Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥40	Car distributor	0.0% directly held	Lending	¥931 million ($8,760 thousand)	Loans and bills discounted	¥900 million ($8,468 thousand)
	Toyota Renta Lease Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥36	Rental and lease of vehicles	0.0% directly held	Lending	¥300 million ($2,822 thousand)	Loans and bills discounted	¥300 million ($2,822 thousand)
	Ugo Setsubi Co., Ltd. Note (3)	Akita city, Akita Pref.	¥20	Pipe works	0.0% directly held	Lending	¥27 million ($254 thousand)	-	-
						Guarantee for liabilities	¥7 million ($65 thousand)	Customers' liabilities for acceptances and guarantees	¥4 million ($37 thousand)
	Ugo Densetsu Kogyo Co., Ltd. Note (4)	Akita city, Akita Pref.	¥30	Electric works	0.0% directly held	Lending	¥51 million ($479 thousand)	-	-
						Guarantee for liabilities	¥81 million ($762 thousand)	Customers' liabilities for acceptances and guarantees	¥103 million ($969 thousand)
	Ugo Hatsuhenden Koji Co., Ltd. Note (4)	Akita city, Akita Pref.	¥20	Electric works	-	Lending	¥22 million ($207 thousand)	Loans and bills discounted	¥10 million ($94 thousand)
						Guarantee for liabilities	¥0 million ($0 thousand)	-	-

2017

Type	Name	Address	Capital (Millions of yen)	Business	Ownerships of voting rights (%)	Transaction type	Transaction amount	Account	Balance at March 31, 2017
Companies, etc. whose voting rights are owned by the director of the consolidated subsidiary or his/her relatives	Akita Kubota Co., Ltd. Note (1)	Akita city, Akita Pref.	¥60	Agricultural machines distributor	0.0% directly held	Lending	¥169 million	Loans and bills discounted	¥109 million
						Guarantee for liabilities	¥0 million	-	-
	Netz Toyota Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥40	Car distributor	0.0% directly held	Lending	¥703 million	Loans and bills discounted	¥900 million
	Toyota Renta Lease Akita Co., Ltd. Note (2)	Akita city, Akita Pref.	¥36	Rental and lease of vehicles	0.0% directly held	Lending	¥300 million	Loans and bills discounted	¥300 million
	Ugo Setsubi Co., Ltd. Note (3)	Akita city, Akita Pref.	¥20	Pipe works	0.0% directly held	Lending	¥21 million	Loans and bills discounted	¥112 million
						Guarantee for liabilities	¥7 million	Customers' liabilities for acceptances and guarantees	¥3 million
	Ugo Densetsu Kogyo Co., Ltd. Note (4)	Akita city, Akita Pref.	¥30	Electric works	0.0% directly held	Lending	¥26 million	-	-
						Guarantee for liabilities	¥36 million	Customers' liabilities for acceptances and guarantees	¥25 million
	Ugo Hatsuhenden Koji Co., Ltd. Note (4)	Akita city, Akita Pref.	¥20	Electric works	-	Lending	¥35 million	Loans and bills discounted	¥3 million

Notes: (1) Akita Kubota Co., Ltd. is a subsidiary of Ishii Shoji Co., Ltd. Tadanari Ishii, who is a director of Hokuto which is a significant consolidated subsidiary of the Company, and his relatives own the majority of voting rights of Ishii Shoji Co., Ltd.

(2) Tadanari Ishii, who is a director of Hokuto which is a significant consolidated subsidiary of the Company, his relatives and Ishii Shoji Co., Ltd. own the majority of voting rights of Netz Toyota Akita Co., Ltd. Toyota Renta Lease Akita Co., Ltd. is a subsidiary of Netz Toyota Akita Co., Ltd.

(3) As of March 2018, Hiroyuki Sato, who is a director of the Company, his relatives and Shin-ichi Nanayama, a director and audit & supervisory board member of Hokuto, which is a significant consolidated subsidiary of the Company, own the majority of voting rights of Ugo Setsubi Co., Ltd. As of March 2017, Hiroyuki Sato, who is a director of Hokuto, which is a significant consolidated subsidiary of the Company, his relatives and Shin-ichi Nanayama, a director and audit & supervisory board member of Hokuto, own the majority of voting rights of Ugo Setsubi Co., Ltd.

(4) Shin-ichi Nanayama, a director and audit & supervisory board member of Hokuto which is a significant consolidated subsidiary of the Company, and his relatives own the majority of voting rights of Ugo Densetsu Kogyo Co., Ltd. Ugo Hatsuhenden Koji Co., Ltd. is a subsidiary of Ugo Densetsu Kogyo Co., Ltd.

(5) The transactions are with Hokuto, which is a significant consolidated subsidiary of the Company, and the trading conditions and policies are the same as those of the transactions with general parties.

(6) The transaction amount is shown by the average balance.

There is no other related party transaction to be disclosed for the years ended March 31, 2018 and 2017.

23. Financial Instruments and Related Disclosures

1. Status of Financial Instruments

(1) Policy on financial instruments

The Group is engaged in financial information services centering on banking business such as deposit-taking and lending services for domestic corporate and individual customers and management of securities such as debt and equity securities and investment trusts. The Group accepts risk as long as it remains financially healthy and intends to improve its earning power in order to continue to conduct these services.

The Group holds financial assets and liabilities exposed to the fluctuation risk of interest rates. Accordingly, the Group conducts asset and liability management (ALM) and enters into derivative transactions if necessary in order to avoid adverse effect by the interest-rate fluctuation.

(2) Contents of financial instruments and their risks

Financial assets held by the Group mainly consist of loans and bills discounted to domestic corporate and individual customers, which are exposed to credit risk arising from customers' nonperformance of contractual obligations. In addition, securities, principally consisting of equity securities, debt securities, investment trusts and investment in partnerships, are held for the purposes of net investment and strategic investment. These financial assets are exposed to credit risk of issuers and fluctuation risk of interest rates and market prices.

Major financial liabilities, consisting of deposits and negotiable certificates of deposit, are principally deposits accepted from domestic corporate and individual customers. They require attentions to liquidity risk arising from concentrated cancellation of deposits, but most of those deposits are from individual customers and accordingly, the risk is dispersed to small accounts. The liquidity risk is also controlled by limiting the ratio of large deposit accounts to a certain level.

Derivative contracts which the Group enters into consist of interest rate swaps employed as part of ALM and futures of debt securities held as available-for-sale securities, options, etc. These derivatives are not entered into for speculative purpose but mainly for hedging purposes.

(3) Risk management system for financial instruments

The Group has established the "Basic Policy on Risk Management" and various risk control rules and a system to conduct the risk management as follows:

a. Credit risk management:

   In accordance with the "Credit Policy" and "Credit Risk Management Rule," for loans and bills discounted, a credit control system has been established and maintained, including credit review by individual contract, credit limit control, credit information control, internal ratings, retrospective control including self-assessment, establishment of guaranty and security, countermeasures for problem accounts, credit concentration risk management, etc. These credit controls are performed by the loan departments in addition to each operating office, being reported to and discussed at the management meetings on a regular basis. Furthermore, the status of credit control is examined by the internal audit department.

b. Market risk management:
For market transactions, front office, middle office and back office, each of which is independent of others, are mutually controlled.

Interest rate risk management:
The Group manages the fluctuation risk of interest rates by ALM. In accordance with the "Market Risk Management Rule," the Group measures the exposure of interest rate risk, monitoring by gap analysis and sensitivity analysis on a regular basis, and the monitoring results are reported to the management meetings on a regular basis. In addition, the future countermeasures based on the analysis of current status are discussed.

Foreign exchange risk management:
The Group manages foreign exchange risk, in accordance with the "Market Risk Management Rule," by establishing total positions and loss limits or entering into hedging activities.

Price fluctuation risk management:
The Group manages price fluctuation risk in accordance with "Market Risk Management Rule." Risk exposures to securities are monitored for usage against the pre-set limit by the Risk Control Department on a daily basis based on Value at Risk (VaR) and other risk indexes such as 10BVP and reported to the management meetings.

Derivative transactions:
With respect to derivative transactions, the Group segregates the duties of the departments responsible for execution of transactions, verification of hedge effectiveness, and operation administration and conducts transactions under the management and control based on the handling rules.

Quantitative information about market risk:
Financial instruments not for trading purposes
The Group identifies and manages the market risk volume using VaR on a daily basis (monthly basis with regard to interest rate risk volume of deposits, loans and bills discounted, etc.), since the Group holds many financial instruments whose fair values fluctuate on a daily basis and such fluctuation amount is greater than other risk categories. The market risk volume of the Group is controlled as the total amounts of market risk volume of Shonai and Hokuto which are the subsidiaries.
Market risk volume of the banking business of the Group at March 31, 2018 and 2017 and for the years then ended was as follows:

	Billions of yen			
	2018			
	Average	Maximum	Minimum	As of the fiscal year-end
Due from banks, loans and bills discounted and others	¥ 0.0	¥ 0.0	¥ 0.0	¥ 0.0
Securities:	27.3	35.2	21.7	23.3
Debt securities	5.8	8.8	3.4	3.4
Equity securities	5.6	7.7	4.2	6.4
Other	19.9	25.5	15.5	15.6

	Billions of yen			
	2017			
	Average	Maximum	Minimum	As of the fiscal year-end
Due from banks, loans and bills discounted and others	¥ 0.0	¥ 0.0	¥ 0.0	¥ 0.0
Securities:	51.0	55.0	35.1	35.1
Debt securities	13.1	16.3	8.8	8.8
Equity securities	12.8	14.9	7.7	7.7
Other	30.3	32.9	24.7	24.8

	Millions of U.S. dollars			
	2018			
	Average	Maximum	Minimum	As of the fiscal year-end
Due from banks, loans and bills discounted and others	$ 0	$ 0	$ 0	$ 0
Securities:	256	331	204	219
Debt securities	54	82	31	31
Equity securities	52	72	39	60
Other	187	239	145	146

(*1) VaR is measured in principle using the variance/co-variance method.
(*2) Holding period is assumed to be 60 business days for higher market liquidity financial instruments such as Japanese government bonds, municipal bonds, listed equity securities (excluding strategic investments), etc., 250 business days for cross-holding shares of listed equity securities, and 125 or 250 business days for less market liquidity financial instruments, due from banks, loans and bills discounted, etc.
(*3) 99 % is used for confidence interval, and 250 business days are used as extraction period of market data to measure volatility.
(*4) The total amount does not agree with the sum of the individual amounts since correlation between the risk factors of debt securities and equity securities is taken into account.
(*5) The current interest rate risk volume of deposits, loans and bills discounted, etc., represents decreasing interest rate risk, not increasing interest rate risk. The increasing interest rate risk is managed as internal control. Therefore, the interest rate risk volume of due from banks, loans and bills discounted and others is considered to be zero.

Within the Group, each banking subsidiary implements backtests comparing the VaR of one day holding period measured by the model and actual change in losses, in order to verify the accuracy of the measurement model of the market risk volume concerning the VaR of securities.
The measurement model currently in use is deemed to capture the market risk on the reasonably accurate basis. However, the Group will take conservative actions as necessary when VaR is expected to increase due to an increase in volatility.

In implementing the risk management using the VaR, the following particular points are paid attention to:
(i) Quantitative information such as VaR of market risk is determined based on the statistical assumptions and may result in a different value depending on the different assumptions and calculation methods.
(ii) Quantitative information such as VaR of market risk is a statistical value calculated based on the assumptions and not intended to estimate the amount of maximum losses. Profit or loss is assumed to exceed VaR on the frequency corresponding to the confidence interval.

(iii) Future market conditions may differ significantly from the past.

Financial instruments for trading purposes are excluded from the scope of disclosure, since the outstanding balance at any banking subsidiary is very insignificant and the materiality of effect on the management is quite limited.

c. Liquidity risk management:
The Group sets limits on liquidity risk management and reports to the management meetings, monitoring the results on a daily basis in accordance with the "Liquidity Risk Management Rule."

(4) Supplementary explanation about fair value of financial instruments
The fair value of financial instruments includes, in addition to the value determined based on the market price, a valuation calculated on a reasonable basis, such as theoretical price if no market price is available. Since certain assumptions are used in calculating the value, the result of such calculation may vary if different assumptions are used.

2. Fair value of financial instruments
The carrying amount, the fair value and their difference as of March 31, 2018 and 2017 were as follows. Note that unlisted equity securities for which fair value is extremely difficult to determine are not included in the following table (See Note 2 below).

	Millions of yen		
March 31, 2018	Carrying amount	Fair value	Difference
Cash and due from banks	¥ 156,177	¥ 156,177	¥ -
Monetary claims bought (*1)	4,100	4,100	-
Trading account securities:			
Trading securities	303	303	-
Money held in trust	14,002	14,002	-
Securities:			
Available-for-sale securities	741,175	741,175	-
Loans and bills discounted:	1,738,367		
Allowance for loan losses (*1)	(14,304)		
	1,724,062	1,758,436	34,374
Foreign exchange assets (*1)	2,144	2,144	-
Total assets	¥ 2,641,966	¥ 2,676,340	¥ 34,374
Deposits	¥ 2,429,106	¥ 2,429,243	¥ 136
Negotiable certificates of deposit	99,843	99,843	-
Payables under securities lending transactions	60,778	60,778	-
Borrowed money	15,100	15,162	62
Foreign exchange liabilities	52	52	-
Bonds payable	-	-	-
Total liabilities	¥ 2,604,880	¥ 2,605,080	¥ 199
Derivative transactions (*2):			
To which hedge accounting is not applied	¥ 334	¥ 334	¥ -
Total derivative transactions	¥ 334	¥ 334	¥ -

March 31, 2017	Carrying amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
Cash and due from banks	¥ 77,180	¥ 77,180	¥ -
Monetary claims bought (*1)	3,821	3,821	-
Trading account securities:			
Trading securities	704	704	-
Money held in trust	9,606	9,606	-
Securities:			
Available-for-sale securities	934,013	934,013	-
Loans and bills discounted:	1,759,326		
Allowance for loan losses (*1)	(16,188)		
	1,743,137	1,779,814	36,676
Foreign exchange assets (*1)	2,054	2,054	-
Total assets	¥ 2,770,519	¥ 2,807,196	¥ 36,676
Deposits	¥ 2,392,320	¥ 2,392,621	¥ 300
Negotiable certificates of deposit	141,595	141,595	-
Payables under securities lending transactions	129,789	129,789	-
Borrowed money	16,400	16,519	119
Foreign exchange liabilities	36	36	-
Bonds payable	5,000	5,063	63
Total liabilities	¥ 2,685,143	¥ 2,685,627	¥ 484
Derivative transactions (*2):			
To which hedge accounting is not applied	¥ 1,188	¥ 1,188	¥ -
Total derivative transactions	¥ 1,188	¥ 1,188	¥ -

March 31, 2018	Thousands of U.S. dollars Carrying amount	 Fair value	 Difference
Cash and due from banks	$ 1,469,624	$ 1,469,624	$ -
Monetary claims bought (*1)	38,580	38,580	-
Trading account securities:			
Trading securities	2,851	2,851	-
Money held in trust	131,758	131,758	-
Securities:			
Available-for-sale securities	6,974,451	6,974,451	-
Loans and bills discounted:	16,358,022		
Allowance for loan losses (*1)	(134,600)		
	16,223,412	16,546,871	323,459
Foreign exchange assets (*1)	20,175	20,175	-
Total assets	$ 24,860,882	$ 25,184,341	$ 323,459
Deposits	$ 22,857,871	$ 22,859,160	$ 1,279
Negotiable certificates of deposit	939,521	939,521	-
Payables under securities lending transactions	571,920	571,920	-
Borrowed money	142,090	142,674	583
Foreign exchange liabilities	489	489	-
Bonds payable	-	-	-
Total liabilities	$ 24,511,903	$ 24,513,785	$ 1,872
Derivative transactions (*2):			
To which hedge accounting is not applied	$ 3,142	$ 3,142	$ -
Total derivative transactions	$ 3,142	$ 3,142	$ -

(*1) General and specific allowances for loan losses corresponding to loans and bills discounted are deducted. With respect to allowance for loan losses related to monetary claims bought and foreign exchange assets, carrying amount is shown, net of allowance, since the amount is insignificant.

(*2) Assets and liabilities arising from derivative transactions are presented in net amounts, and net liabilities are shown in parenthesis.

(Note 1) Calculation method for the fair value of financial instruments

Assets:

Cash and due from banks

For due from banks without maturity, the carrying amount is presented as the fair value since the fair value approximates the carrying amount. For due from banks with maturity, the carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining maturity is mostly short (within one year).

Monetary claims bought

The carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining term is short (within one year).

Trading account securities

For securities such as debt securities held for dealing purpose, the fair value is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted.

Money held in trust

For securities that are invested as part of trust assets in an independently managed money trust with the primary purpose of managing securities, the fair value of equity securities is determined using the price at the exchange and the fair value of debt securities is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted.

Securities
The fair value of equity securities is determined using the price at the exchange (average market price during one month before the fiscal year-end) and the fair value of debt securities is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted. The fair value of investment trust is determined based on the published standard quotation price.
For privately placed bonds, the fair value is determined by discounting the future cash flows of bonds categorized based on the internal ratings and terms using credit risk spread by credit rating and market interest rate.

Loans and bills discounted
For the loans and bills discounted with short remaining terms (within one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount. For the loans and bills discounted without predetermined maturity because of characteristics such as the loans and bills discounted being limited within the amount of the pledged assets, the carrying amount is presented as the fair value since the fair value is considered to approximate the carrying amount considering the expected repayment term and interest rate conditions.
The fair value of the loans and bills discounted with fixed interest rates categorized by type of loans and bills discounted, internal rating and term is calculated by discounting the total of principal and interest using credit risk spread by credit rating and market interest rate. The fair value of the loans and bills discounted with floating interest rates, categorized by internal rating and term, is calculated by discounting the total of principal and interest, basically until the interest maturity date, using credit risk spread by credit rating and market interest rate. Credit risk spread is calculated by remaining term based on accumulated default rate by credit rating and loss rate by debtor classification.
For loans and bills discounted due from bankrupt, virtually bankrupt or potentially bankrupt borrowers, loan losses are estimated based on factors such as the present value of estimated future cash flows or the expected amount to be collected from collaterals and guarantees. Since the fair value of these items approximates the carrying amount net of the recoded amount of allowance for loan losses, such carrying amount is presented as the fair value.

Foreign exchange assets
Foreign exchange assets consist of foreign currency deposits with other banks (due from other foreign banks) and export bills and traveler’s checks, etc. (foreign bills bought). For these items, the carrying amount is presented as the fair value, since the fair value approximates the carrying amount because they are deposit without maturity or have short-term remaining terms (within one year).

Liabilities:

Deposits and Negotiable certificates of deposit

For demand deposits, the amount payable on demand as of the balance sheet date (i.e., the carrying amount) is considered to be the fair value. The fair value of time deposit is determined using the discounted present value of future cash flows, grouping by certain maturity length. The discount rate used is the interest rate that would be applied to newly accepted deposits. For deposits whose remaining term is short (within one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

Payables under securities lending transactions

The carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining term is short (within one year).

Borrowed money

For borrowed money whose remaining term is short (within one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

For subordinated borrowed money whose remaining term is more than one year and which is subject to call option giving a right to redeem before maturity and step-up clause, the fair value is calculated by discounting the estimated cash flows after taking into consideration the possibility of redemption before maturity by the interest rate corresponding to the estimated period after taking into consideration credit risk of the consolidated subsidiaries.

Foreign exchange liabilities

The carrying amount is presented as the fair value, since the fair value of these liabilities approximates the carrying amount because they are settled within a short period of time.

Bonds payable

For subordinated bonds payable issued by the principal consolidated subsidiary of the Company and subject to call option giving a right to redeem before maturity and step-up clause, the fair value is calculated by discounting the estimated cash flows after taking into consideration the possibility of redemption before maturity by the interest rate corresponding to the estimated period after taking into consideration credit risk of the related subsidiary.

Derivative transactions:

Please see Note 24.

(Note 2) Financial instruments whose fair value is extremely difficult to determine are as follows. These financial instruments are not included in "Securities" under "Assets" of the fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unlisted equity securities (*1) (*2)	¥ 1,547	¥ 1,548	$ 14,557
Investment in partnerships (*3)	1,962	1,820	18,462
Total	¥ 3,510	¥ 3,369	$ 33,029

(*1) The fair value of unlisted equity securities is not disclosed since no market price is available and it is extremely difficult to determine the fair value.

(*2) The Company recognized write-down of unlisted equity securities in an amount of ¥0 million ($0 thousand) and ¥14 million for the years ended March 31, 2018 and 2017, respectively.

(*3) The fair value of investment in partnerships whose assets consist of securities such as unlisted equity securities whose fair value is extremely difficult to determine is not disclosed.

(Note 3) Repayment schedule of monetary receivables and securities with contractual maturities subsequent to March 31, 2018

	Millions of yen					
March 31, 2018	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Due from banks (*1)	¥ 123,559	¥ -	¥ -	¥ -	¥ -	¥ -
Monetary claims bought	4,121	-	-	-	-	-
Securities:						
Available-for-sale securities with maturity:	66,527	170,711	133,518	54,653	97,587	126,244
Japanese government bonds	25,500	104,400	29,000	14,500	2,000	19,000
Municipal bonds	19,125	30,323	52,714	23,439	39,146	40,861
Corporate bonds	14,354	12,978	8,673	6,593	3,803	43,602
Other	7,548	23,009	43,131	10,120	52,637	22,780
Loans and bills discounted (*2)	270,691	305,635	259,964	192,624	189,147	423,838
Total	¥ 464,900	¥ 476,347	¥ 393,482	¥ 247,278	¥ 286,734	¥ 550,082

	Thousands of U.S. dollars					
March 31, 2018	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Due from banks (*1)	$1,162,689	$ -	$ -	$ -	$ -	$ -
Monetary claims bought	38,778	-	-	-	-	-
Securities:						
Available-for-sale securities with maturity:	626,018	1,606,389	1,256,403	514,284	918,293	1,187,955
Japanese government bonds	239,954	982,403	272,889	136,444	18,819	178,789
Municipal bonds	179,966	285,339	496,038	220,560	368,363	384,501
Corporate bonds	135,071	122,122	81,612	62,040	35,786	410,294
Other	71,026	216,514	405,862	95,229	495,313	214,359
Loans and bills discounted (*2)	2,547,200	2,876,023	2,446,259	1,812,590	1,779,872	3,988,312
Total	$4,374,705	$4,482,422	$3,702,663	$2,326,884	$2,698,165	$5,176,267

(*1) Due from banks without maturity is shown under "Due in one year or less."

(*2) Loans and bills discounted as of March 31, 2018 do not include ¥30,900 million ($290,768 thousand) of receivables such as those due from bankrupt, virtually bankrupt or potentially bankrupt borrowers since these are not certain when they can be collected or redeemed, and ¥65,564 million ($616,956 thousand) of receivables without maturity.

(Note 4) Repayment schedule of bonds payable, borrowed money and other interest bearing liabilities subsequent to March 31, 2018

	Millions of yen					
March 31, 2018	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	¥ 2,158,655	¥ 108,968	¥ 8,940	¥ -	¥ -	¥ -
Negotiable certificates of deposit	99,843	-	-	-	-	-
Payables under securities lending transactions	60,778	-	-	-	-	-
Borrowed money	1,700	5,700	2,700	5,000	-	-
Bonds payable	-	-	-	-	-	-
Total	¥ 2,320,976	¥ 114,668	¥ 11,640	¥ 5,000	¥ -	¥ -

	Thousands of U.S. dollars					
March 31, 2018	Due in one year or less	Due after one year through three years	Due after three years through five years	Due after five years through seven years	Due after seven years through ten years	Due after ten years
Deposits (*)	$20,312,929	$ 1,025,388	$ 84,125	$ -	$ -	$ -
Negotiable certificates of deposit	939,521	-	-	-	-	-
Payables under securities lending transactions	571,920	-	-	-	-	-
Borrowed money	15,996	53,636	25,406	47,049	-	-
Bonds payable	-	-	-	-	-	-
Total	$21,840,368	$ 1,079,025	$ 109,532	$ 47,049	$ -	$ -

(*) Demand deposits are shown under "Due in one year or less" of deposits.

24. Derivatives

Derivative transactions to which hedge accounting is not applied

With respect to derivatives to which hedge accounting is not applied, contract amount or notional principal, fair value and related valuation gain or loss by transaction type at the balance sheet date and calculation method of the fair value were as follows. Note that contract amounts do not represent the market risk exposure associated with the derivative transactions.

Currency related derivatives at March 31, 2018 and 2017 were as follows:

	Millions of yen			
	Contract amount			
March 31, 2018	Total	Over one year	Fair value	Valuation gain (loss)
OTC transactions:				
Forward foreign exchange contracts:				
Sold	¥ 84,733	¥ 42	¥ 376	¥ 376
Bought	965	42	(41)	(41)
Total			¥ 334	¥ 334

	Millions of yen			
	Contract amount			
March 31, 2017	Total	Over one year	Fair value	Valuation gain (loss)
OTC transactions:				
Forward foreign exchange contracts:				
Sold	¥ 139,820	¥ 497	¥ 1,165	¥ 1,165
Bought	2,532	494	22	22
Total			¥ 1,188	¥ 1,188

	Thousands of U.S. dollars			
	Contract amount			
March 31, 2018	Total	Over one year	Fair value	Valuation gain (loss)
OTC transactions:				
Forward foreign exchange contracts:				
Sold	$ 797,336	$ 395	$ 3,538	$ 3,538
Bought	9,080	395	(385)	(385)
Total			$ 3,142	$ 3,142

Notes: (1) Above transactions are stated at the fair value, and the related valuation gain (loss) are reported in the consolidated statements of income.

(2) The fair value is calculated using the discounted present value.

Derivative transactions to which hedge accounting is applied

With respect to derivatives to which hedge accounting is applied, contract amount or notional principal and fair value at the balance sheet date by transaction type and hedge accounting method and calculation method of the fair value were as follows. Note that contract amounts do not represent the market risk exposure associated with the derivative transactions.

There was no derivative transaction to which hedge accounting is applied at March 31, 2018 and 2017.

25. Amounts per Share

Amounts per share at March 31, 2018 and 2017 and for the years then ended are summarized as follows:

	Yen		U.S. dollars
	2018	2017	2018
Net assets	¥ 581.32	¥ 560.77	$ 5.4702
Net income:			
Basic	22.98	25.18	0.2162
Diluted	18.38	20.63	0.1729

Net income per share—basic and net income per share—diluted for the years ended March 31, 2018 and 2017 were calculated based on the following information:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income attributable to owners of parent —basic:	¥ 4,281	¥ 4,627	$ 40,284
Amounts not attributed to common stock shareholders	112	118	1,053
O/W, dividends for preferred stock based on the resolution at the Board of Directors' meeting	56	59	526
O/W, interim dividends for preferred stock	56	59	526
Net income attributable to common stock owners of parent	¥ 4,169	¥ 4,509	$ 39,230
Average outstanding number of shares of common stock (Unit: thousand shares)	181,381	179,054	
Net income attributable to owners of parent —diluted:			
Adjustments to net income attributable to owners of parent	¥ 112	¥ 118	$ 1,053
O/W, dividends for preferred stock class B	112	118	1,053
Increase in number of shares of common stock (Unit: thousand shares)	51,546	45,248	
O/W, preferred stock class B	51,546	45,248	

Net assets per share at March 31, 2018 and 2017 were calculated based on the following information:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total net assets	¥ 115,756	¥ 111,937	$1,089,263
Amounts deducted from total net assets:	(10,307)	(10,224)	(96,988)
O/W, payment for preferred stock	(10,000)	(10,000)	(94,099)
O/W, dividends for preferred stock	(56)	(59)	(526)
O/W, non-controlling interests	(250)	(165)	(2,352)
Net assets attributable to common stock as of March 31, 2018 and 2017	¥ 105,449	¥ 101,712	$ 992,274
Number of shares of common stock as of March 31, 2018 and 2017 used to calculate net assets per share (Unit: thousand shares)	181,396	181,379	

26. Subsequent Events

None to report.

27. Non-Consolidated Financial Statements of Shonai and Hokuto as of March 31, 2018 and 2017 and for the Years Then Ended

The Shonai Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets:			
Cash and due from banks	¥ 58,652	¥ 47,278	$ 551,914
Monetary claims bought	1,923	1,725	18,095
Trading account securities	284	43	2,672
Money held in trust	10,500	7,606	98,804
Securities	381,800	472,001	3,592,735
Loans and bills discounted	940,744	965,197	8,852,394
Foreign exchange assets	1,455	1,172	13,691
Tangible fixed assets:			
Buildings	10,066	5,397	94,720
Land	6,466	6,708	60,845
Lease assets	5	19	47
Construction in progress	41	3,839	385
Other tangible fixed assets	1,609	1,659	15,140
Intangible fixed assets:			
Software	654	887	6,154
Other intangible fixed assets	68	69	639
Customers' liabilities for acceptances and guarantees	6,543	6,606	61,569
Prepaid pension cost	-	17	-
Other assets	23,495	7,594	221,087
Allowance for loan losses	(7,075)	(7,067)	(66,575)
Total assets	¥ 1,437,236	¥ 1,520,756	$ 13,524,381

(Continued)

The Shonai Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liabilities:			
Deposits	¥ 1,224,322	¥ 1,213,987	$ 11,520,861
Negotiable certificates of deposit	67,796	111,465	637,959
Payables under securities lending transactions	47,118	88,391	443,380
Borrowed money	15,100	16,400	142,090
Foreign exchange liabilities	0	33	0
Bonds payable	-	5,000	-
Provision for retirement benefits	1,396	1,294	13,136
Provision for reimbursement of deposits	254	122	2,390
Provision for contingent loss	277	225	2,606
Deferred tax liabilities	4,048	3,639	38,091
Deferred tax liabilities for land revaluation	502	536	4,723
Acceptances and guarantees	6,543	6,606	61,569
Other liabilities	3,281	8,021	30,874
Total liabilities	¥ 1,370,642	¥ 1,455,723	$ 12,897,732
Net assets:			
Common stock	8,500	8,500	79,984
Capital surplus	20,308	20,308	191,098
Retained earnings	23,339	22,467	219,619
Total shareholders' equity	52,148	51,276	490,712
Unrealized gain on available-for-sale securities	13,355	12,629	125,670
Revaluation reserve for land	1,090	1,127	10,256
Total valuation and translation adjustments	14,445	13,756	135,927
Total net assets	66,594	65,033	626,649
Total liabilities and net assets	¥ 1,437,236	¥ 1,520,756	$ 13,524,381

(Concluded)

The Shonai Bank, Ltd.

Non-Consolidated Statements of Income
Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Income:			
Interest income:			
Interest on loans and discounts	¥ 11,884	¥ 12,451	$ 111,828
Interest and dividends on securities	7,329	6,325	68,965
Other	21	16	197
Fees and commissions	4,015	4,141	37,781
Other operating income	833	2,378	7,838
Other income	2,101	1,263	19,770
Total income	26,186	26,577	246,410
Expenses:			
Interest expenses:			
Interest on deposits	926	1,407	8,713
Interest on negotiable certificates of deposit	33	70	310
Interest on payables under securities lending transactions	194	293	1,825
Interest on borrowings and rediscounts	73	76	686
Interest on bonds payable	44	134	414
Other	2	3	18
Fees and commissions	2,370	2,385	22,301
Other operating expenses	3,052	2,837	28,719
General and administrative expenses	14,953	14,611	140,707
Other expenses	1,981	2,333	18,641
Total expenses	23,633	24,153	222,386
Income before income taxes	2,552	2,423	24,014
Income taxes:			
Current	1,119	872	10,529
Deferred	53	(416)	498
Total income taxes	1,172	455	11,028
Net income	¥ 1,379	¥ 1,968	$ 12,976

The Hokuto Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets:			
Cash and due from banks	¥ 97,506	¥ 29,947	$ 917,530
Monetary claims bought	964	906	9,071
Trading account securities	18	661	169
Money held in trust	3,502	2,000	32,953
Securities	362,754	465,346	3,413,512
Loans and bills discounted	811,973	811,103	7,640,660
Foreign exchange assets	689	883	6,483
Tangible fixed assets:			
Buildings	5,329	5,369	50,145
Land	7,802	8,343	73,416
Lease assets	1	5	9
Other tangible fixed assets	681	802	6,408
Intangible fixed assets:			
Software	812	1,425	7,640
Other intangible fixed assets	62	62	583
Prepaid pension cost	561	834	5,279
Deferred tax assets	1,345	1,341	12,656
Customers’ liabilities for acceptances and guarantees	15,490	15,213	145,760
Other assets	36,727	8,726	345,600
Allowance for loan losses	(5,303)	(7,054)	(49,901)
Total assets	¥ 1,340,922	¥ 1,345,920	$ 12,618,067

(Continued)

The Hokuto Bank, Ltd.

Non-Consolidated Balance Sheets
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liabilities:			
Deposits	¥ 1,209,429	¥ 1,182,344	$11,380,718
Negotiable certificates of deposit	36,347	35,230	342,025
Payables under securities lending transactions	13,659	41,398	128,531
Borrowed money	2,500	5,000	23,524
Foreign exchange liabilities	51	3	479
Provision for reimbursement of deposits	508	525	4,780
Provision for contingent loss	142	119	1,336
Deferred tax liabilities for land revaluation	1,060	1,217	9,974
Acceptances and guarantees	15,490	15,213	145,760
Other liabilities	3,624	7,629	34,101
Total liabilities	1,282,813	1,288,680	12,071,261
Net assets:			
Common stock	12,500	12,500	117,624
Capital surplus	19,999	19,999	188,190
Retained earnings	17,661	16,146	166,189
Total shareholders' equity	50,161	48,646	472,014
Unrealized gain on available-for-sale securities	5,779	6,065	54,380
Revaluation reserve for land	2,168	2,528	20,400
Total valuation and translation adjustments	7,947	8,594	74,781
Total net assets	58,108	57,240	546,795
Total liabilities and net assets	¥ 1,340,922	¥ 1,345,920	$12,618,067

(Concluded)

The Hokuto Bank, Ltd.

Non-Consolidated Statements of Income
Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Income:			
Interest income:			
Interest on loans and discounts	¥ 10,345	¥ 10,724	$ 97,346
Interest and dividends on securities	5,420	5,318	51,002
Other	13	10	122
Fees and commissions	3,870	3,854	36,416
Other operating income	1,552	2,396	14,604
Other income	1,807	1,603	17,003
Total income	23,009	23,909	216,514
Expenses:			
Interest expenses:			
Interest on deposits	543	622	5,109
Interest on negotiable certificates of deposit	15	27	141
Interest on payables under securities lending transactions	407	509	3,829
Interest on borrowings and rediscounts	58	104	545
Other	0	0	0
Fees and commissions	1,675	1,559	15,761
Other operating expenses	2,722	2,062	25,614
General and administrative expenses	14,131	14,462	132,972
Other expenses	1,326	1,957	12,477
Total expenses	20,881	21,305	196,490
Income before income taxes	2,127	2,603	20,015
Income taxes:			
Current	348	276	3,274
Deferred	(35)	258	(329)
Total income taxes	312	534	2,935
Net income	¥ 1,815	¥ 2,069	$ 17,079